

PHILIPPINES ECONOMIC WRAP-UP

DECEMBER 09-15, 2000

Summary

Key Philippine economic indicators, such as the value of the peso and the stock market, continue to reflect a "wait-and-see" attitude as investors observe the progress of the impeachment trial of Philippine President Joseph Estrada. Interest rates also reflect this attitude, but also take into account the government's growing fiscal imbalance. The non-performing loan ratio of commercial banks improved somewhat in October, reflecting renewed loan growth (but all indications suggest the upward trend will resume). A regional trial court has reversed a decision by the National Telecommunications Commission that would have favored consumers with lower mobile phone rates. And new car sales, which had grown steadily for much of the year, sank sharply in November, leading industry leaders to rethink their outlook for 2001.

Readers should note that we will publish the "Wrap-Up" on December 22; we will not publish the "Wrap-Up" on Friday, December 29.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our October Economic Outlook, which is also available on our web site.

Contents

MARKET AND POLICY DEVELOPMENTS

- Forex Report
- Credit Market Report
- Stock Market Report
- October's Non-Performing Loan Ratio at 15.56%
- Court Order Favors Mobile Phone Service Providers
- November Car Sales Fell 25%

Industry Reps Believe Political Crisis Hurts Car Sales

Market and Policy Developments

FOREX REPORT

Foreign exchange traders can't seem to decide if they want P50/US\$ to be a ceiling or a floor, as the beleaguered currency continues to hover near that level. On relatively light trading, the peso floated below that level for much of the week, but on Thursday traded just above it for the entire session. Most observers continue to agree that the currency's value will continue to reflect sentiment regarding events in President Estrada's impeachment trial rather than economic fundamentals; so far there have been no major bombshells in the trial (and no major shocks to the peso). Overall, the peso ended the week at P50.03/US\$; the close on December 8 was P50.05/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
NOV 06	48.895	48.050	133.5
07	48.911	49.250	133.5
08	50.189	50.100	154.5
09	50.414	49.950	185.8
10	49.661	50.200	166.0
NOV 13	50.314	50.350	125.5
14	49.885	49.830	93.5
15	49.717	49.800	65.5
16	49.904	49.890	124.4
17	49.915	49.860	79.5
NOV 20	49.834	49.815	68.1
21	49.554	49.490	97.0
22	49.465	49.120	156.7

23	49.151	49.380	113.2
24	49.544	49.930	131.5
NOV 27	49.440	49.410	150.0
28	49.393	49.520	93.1
29	49.590	49.630	174.4
30	Markets Closed		
DEC 01	49.667	49.560	142.0
DEC 04	49.471	49.475	130.8
05	49.565	49.585	84.7
06	49.832	50.050	70.0
07	50.273	50.210	122.6
08	50.108	50.050	92.0
DEC 11	49.949	49.945	68.4
12	49.856	49.850	37.5
13	49.930	49.978	52.5
14	50.071	50.085	114.1
15	50.050	50.030	86.6

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Rafael Buenaventura, Governor of the Bangko Sentral ng Pilipinas (BSP, the central bank), told reporters this week that the BSP's policy-making Monetary Board had ruled out a reduction in liquidity reserves through the end of 2000, but that a cut was likely in early January. The liquidity reserve requirement, the amount of cash banks are required to hold in the vaults against deposits, was hiked to 16% total in October as the central bank struggled to curb speculation against the Philippine peso. A cut in liquidity reserve requirements would complement other moves by the BSP to ease interest rates. Buenaventura, however, previewed a further reduction in overnight rates. As the week closed, reporters at the BSP said that the policy-making Monetary Board had decided to reduce overnight rates by another 50 basis points effective December 18 (to 13.5% for borrowing and 15.75% for lending). This brings the partial rollback over the past three weeks to 150 basis

points, following the Monetary Board's decision to hike overnight rates by 400 basis points in October.

At the regularly scheduled T-Bill auction on Monday, December 11, rates on shorter-term instruments continued to fall. Rates on the 91-day bill fell a full 49.1 basis points (to 13.702%), on a full award of P1 billion. The rates on the 182-day bill also sank, but far less dramatically; a 1.3 basis point decline saw the rate settle at 15.277%. The 364-day bill resisted the downward trend, however, rising 14.4 basis points to 15.579%. Deputy Treasurer Eduardo Mendiola reported that the auction committee had only made a partial award of 364-day bills (P720 million of P1.5 billion on offer) to prevent further steepening of the yield curve. At the auction of 7-year treasury bonds on December 12, rates on those instruments also rose to 17.25%; the last auction of the 7-year bond on September 19 saw rates set at 14.5%. The steepening of the yield curve reflects market expectations of continued political instability; it also takes into account expectations of expanded government borrowing needs to finance its ballooning deficit.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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NOV 06	16.723	17.229	17.389
NOV 13	16.292	17.022	16.863
NOV 20	15.637	15.749	15.977
NOV 27	14.806	15.168	15.235
DEC 04	14.193	15.290	15.435
DEC 11	13.702	15.277	15.579

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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NOV 09	18.5480	14.50 - 21.172
NOV 16	18.6764	14.50 - 21.50

NOV 23	18.4160	14.50 - 21.367
NOV 29	18.2152	14.50 - 21.00
DEC 07	17.5226	14.50 - 20.806
DEC 13	17.2705	14.50 - 20.097

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine stock market remains listless as traders and investors pay more attention to the ongoing impeachment saga than to stock prices. Trading volumes were again very small, with the near-term ceiling of 1400 holding firm for the 33-share Philippine Stock Index (PHISIX). Only a few traders braved the waters to cherry-pick among the blue-chips, helping to support prices. Overall, the PHISIX ended the week at 1403.39; the December 8 close was 1400.36.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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NOV 06	1500.10	3840
07	1512.58	2084
08	1478.42	1768
09	1488.79	1006
10	1488.95	857
NOV 13	1455.94	695
14	1469.58	724
15	1469.20	3703
16	1468.44	2371
17	1470.52	2531
NOV 20	1465.10	2496
21	1449.00	757
22	1456.65	498
23	1447.74	599
24	1442.27	599

NOV 27	1434.25	448
28	1418.04	655
29	1404.83	695
30	Markets Closed	
DEC 01	1386.25	1100
DEC 04	1381.83	561
05	1381.23	551
06	1393.29	599
07	1390.67	504
08	1400.36	623
DEC 11	1393.71	754
12	1398.15	904
13	1395.20	286
14	1398.87	574
15	1403.39	396

Source: Philippine Stock Exchange

OCTOBER'S NON-PERFORMING LOAN RATIO AT 15.56%

The non-performing loan (NPL) ratio of the Philippine commercial banking system declined from 15.73% as of September (the highest since the Asian crisis) to 15.56% as of October. The overall NPL level (up by 2.9% or P7.1 billion month-on-month) inched up for a tenth consecutive month, but the commercial banking system's 4% (P63.4 billion) loan expansion outpaced NPL growth. October's aggregate loan portfolio represented an 8.7% expansion year-on-year -- relatively high by previous months' standards partly because bank credits contracted month-on-month (by 3.7% or P56.7 billion) during 1999's comparable period. During the nine-month period prior to October, year-on-year loan growth averaged barely 2%, highest at 3.7% in July. Relative to end-1999, loans as of October 2000 were up 3%.

Loan expansion has slowed in recent months, reflecting slower economic growth, higher domestic interest rates, and both political and economic uncertainties. Bankers doubt that NPL levels and NPL ratios have peaked. The

banking system also continues to grapple with a rising portfolio of foreclosed assets which, as of October, had expanded by 21.6% (P21.3 billion) from the end of 1999.

SELECTED INDICATORS FOR COMMERCIAL BANKING SYSTEM

	Oct 2000 ----	Sep 2000 ----	Oct 1999 ----
Amounts (P Billions)			

Total Loan Portfolio (TLP) a/	1,631.1	1,567.7	1,500.4
Non-Performing Loans (NPL)	253.7	246.7	217.6
Loan Loss Reserves (LLR)	105.5	104.5	78.2
Restructured Loans (RL)	85.8	83.2	67.9
Foreclosed Assets (FA)	119.6	115.9	80.9
Non-Performing Assets (NPA)	373.3	362.6	298.5
Total Assets (TA)	2,956.9	2,822.7	2,591.2
Ratios (In %)			

NPL/TLP (NPL Ratio)	15.56	15.73	14.50
RL/TLP	17.47	17.54	16.23
LLR/NPL	41.59	42.35	35.93
LLR/TLP	6.47	6.66	5.21
FA/TA	4.16	4.23	3.18
NPA/TA	12.63	12.84	11.52

a/ Includes interbank loans

Source: Bangko Sentral ng Pilipinas

COURT ORDER FAVORS MOBILE PHONE SERVICE PROVIDERS

The Quezon City Regional Trial Court (RTC) has issued an order preventing the National Telecommunications Commission (NTC) from enforcing a revised billing scheme which would have substantially cut mobile phone rates. Globe Telecom and Smart Communications, the Philippines' leading mobile phone service providers, have strongly opposed NTC Memorandum Circular 13-6-2000 (Oct 13 Weekly). Globe and Smart have said the new billing

scheme could not be pursued unless interconnection agreements are likewise modified. Globe and Smart asserted that the new pulse billing system (from one minute per pulse to six seconds per pulse) would result in unnecessary and serious losses to cellphone service providers (estimated at \$150 million per provider annually) . The original memorandum had also said that mobile service providers could not collect on telephone bills that were delivered late, but the RTC agreed with that the NTC has no right to order forfeiture of a subscriber's bill. While the Quezon City RTC admits the NTC is a quasi-judicial body, the Court ruled that the NTC may not resort to "virtual confiscation of property without just compensation", and hence, the NTC may not implement its circular.

NOVEMBER CAR SALES FELL 25%

The automotive industry's recovery trend this year, averaging 20% monthly through September, shifted into reverse in November. The Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) reported that passenger car sales fell 25% month-on-month to 1,682 units, from 2,252 units in October. Cumulative Jan-November car sales totaled just 27,218 units, up by a single-digit 9% from the same period a year ago. CAMPI projects a continuing slump in car sales, given a higher interest rates on new car loans and a 15-20% price increase on almost all brands and models, fueled by a weaker peso. Industry analysts believe that due to the economic slowdown car buyers are shifting preferences, from expensive new locally assembled models to cheaper imported used cars.

INDUSTRY REPS BELIEVE POLITICAL CRISIS HURTS CAR SALES

In a media interview with top marketing officials in the industry, five hinted that the uncertainty caused by the current political crisis involving the President is hurting the automotive industry. Honda's Arnel Doria sees the industry as highly susceptible to foreign exchange fluctuations, given its present level of

development and dependence on imports of major components. Ford Motor's Sadi Saguisag believes that car and especially fleet buyers have adopted a wait-and-see attitude, and added that the political crisis could be one of the causes of this sales slump. Mitsubishi Motor's first vice president for marketing has remarked that the sudden November sales slump (in a seasonally high-sale month) is primarily a direct effect of increased interest rates. CAMPI's executive director summed it all up with this outlook for 2001: the weakening market, aggravated by an expanding sense of uncertainty due to the political crisis, is causing the industry to be more conservative in its business planning for the coming year.